

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
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FM USLO PEKING

TO SECSTATE WASHDC PRIORITY 8083

INFO AMCONSUL HONG KONG PRIORITY

AMEMBASSY TAIPEI PRIORITY

C O N F I D E N T I A L SECTION 1 OF 2 PEKING 1301

EXDIS

E.O. 11652: GDS

TAGS: ETRD, PINT, CH, US

SUBJ: SINO-US TRADE

1. SUMMARY: A DINNER TABLE PLEA BY NATIONAL COUNCIL
PRESIDENT PHILLIPS FOR INCREASED SINO-US TRADE
AS A MEANS OF PROMOTING RAPID ANORMALIZATION WAS
ANSWERED BY CHINESE PARTICIPANTS ACCORDING TO THEIR
AREAS OF FUNCTIONAL RESPONSIBILITY, CCPIT OFFICER
(LI CHUAN) PLEADED A BAD YEAR AND POINTED TO THE
FUTURE; MACHINERY CORPORATION REP COMPLAINED ABOUT
COCOM; AND MFA OFFICIAL (TANG) BLASTED THIS
APPROACH AS AN ATTEMPT TO IGNORE POLITICAL REALITIES.

2. ON FROZEN ASSETS, NANCY TANG SAID THE BALL
WAS IN THE US COURT AND THE PRC WAS STILL WAITING
FOR AN ANSWER. THE COMPLAINED ABOUT THE LEAK IN
THE "NEW YORK TIMES," APPARENTLY IN REGARD
TO FROZEN ASSETS, AND VOICED AN ASSUMPTION
THAT THE LEAK WAS DELIBARATE. END SUMMARY.

3. DURING THE COURSE OF THE NATIONAL
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COUNCIL'S RETURN BANQUET FOR CCPIT PRESIDENT
WANG YAO-TING, NATIONAL COUNCIL PRESIDENT
PHILLIPS INITIATED A DISCUSSION OF SINO-US
TRADE WITH MFA OCEANIC AFFAIRS DEPUTY
DIRECTOR TANG WEN-SHENG, CCPIT VICE PRESIDENT
LI CHUAN, AND MACHINERY CORPORTATION DEPUTY
DIRECTOR CHENG CHI-HSIEN. PHILLIPS ADVANCED

THE PROPOSITION THAT CHINA SHOULD MAKE EVERY EFFORT TO BUILD UP US-CHINA TRADE IN ORDER TO DEVELOP A "CONSTITUENCY" IN THE UNITED STATES IN FAVOR OF NORMALIZING RELATIONS WITH THE PRC. PHILLIPS SAID THAT HE HIMSELF WAS A STRONG SUPPORTER OF PROMPT NORMALIZATION BUT THAT OPPONENTS SOMETIMES CITED THE LOW LEVEL OF US-PRC TRADE IN COMPARISON WITH US TRADE IN "OTHER AREAS" AS PROOF THAT THERE WAS NOTHING TO BE GAINED BY THE US IN NORMALIZING RELATIONS.

4. CHENG POINTED OUT THAT US TRADE COULD BE MUCH GREATER IF THE US DID NOT RESTRICT THE SALE OF CERTAIN HIGH TECHNOLOGY PRODUCTS TO THE PRC. LI CHUAN ADDED THAT, OF COURSE, THE CURRENT LOW LEVEL OF US-CHINA TRADE ALSO REFLECTED CHINA'S INTERNAL DIFFICULTIES LAST YEAR. THESE RISES AND FALLS IN TRADE LEVELS WERE TO BE EXPECTED. TRADE WOULD IMPROVE.

5. PHILLIPS INDICATED AGREEMENT BUT RESTATED HIS ORIGINAL THESIS, EMPHASIZING THAT SUPPORTERS OF IMMEDIATE NORMALIZATION NEEDED "AMMUNITION" IN ORDER TO WIN THE DAY IN PUBLIC OPINION AND IN THE CONGRESS. THE
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LEVEL OF TRADE IN THE LAST FEW YEARS WAS INFINITESIMAL IN COMPARISON WITH OTHER AREAS.

6. AT THIS POINT, EXPLAINING THAT "NORMALIZATION" WAS A "PLITICAL" TOPIC, IN HER AREA OF RESPONSIBILITY, NANCY TANG ENTERED THE CONVERSATION AND MADE HER USUAL FORCEFUL STATEMENT OF ORTHODOX PRC VIEWS ON NORMALIZATION. AFTER BLASTING THE "IGNORANCE" OF THOSE WHO CONSIDERED THE LEVEL OF TRADE, WHATEVER IT MIGHT BE, TO TAKE PRECEDENCE OVER POLITICAL REALITIES, SHE SAID THAT SHE WAS AWARE OF TWO REASONS NOT CONNECTED WITH TRADE WHY AMERICANS HESITATED TO CONTINUE WITH NORMALIZATION. FIRST, THE CHIANG REGIME WAS SO CORRUPT THAT IF THE SUPPORT OF THE US WAS WITHDRAWN IT WOULD

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C O N F I D E N T I A L SECTION 2 OF 2 PEKING 1301

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IMMEDIATELY COLLAPSE. THIS WAS, OF COURSE,
FURTHER PROOF OF THE ROTTENNESS OF THE
CHIANG GOVERNMENT AND OF THE IMMORALITY OF THE
US SUPPORT OF IT. SECOND, THERE
WERE THOSE WHO FEARED TO OFFEND THE SOVIET
UNION AT THIS TIME.

7. PHILLIPS AGREED THAT THESE TWO POINTS
OF VIEW WERE HELD BY SOME PEOPLE IN THE US,
BUT INSISTED THAT NEITHER WAS IMPORTANT
POLITICALLY. HE RESTATED ONCE MORE HIS
THESIS THAT THE FAR GREATER VOLUME OF US
TRADE AND INVESTMENT IN OTHER AREAS PROVIDED
STRONG POLITICAL AMMUNITION FOR OPPONENTS
OF NORMALIZATION. TANG REPLIED SHARPLY THAT
"THE MORE YOU GIVE THE CHIANG REGIME, THE
MORE YOU STAND TO LOSE".

8. CHENG RE-ENTERED THE DISCUSSION AT THIS
POINT, RESTATING HIS COMPLAINT ABOUT US EXPORT
RESTRICTIONS, CITING THE CONTINUING STALEMATE
RESULTING FROM US FAILURE TO LICENSE EXPORT
OF A COMPUTER-CONTROLLED MACHINE TOOL (HE
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WAS NOT CERTAIN OF THE COMPANY NAME INVOLVED).
ALTHOUGH THE MACHINE TOOL COULD BE PURCHASED
WITHOUT THE AUTOMATIC CONTROL, IT WAS NOT
NEARLY SO ATTRACTIVE TO THE PRC. HE ADDED THAT
CHINA HAD MADE ABIG CONTRIBUTION TO US-CHINA

TRADE RELATIONS BY PURCHASE OF BOEING AIRCRAFT. FOLLOWING THIS PURCHASE, HOWEVER, CHINA HAD BOUGHT TRIDENT AIRCRAFT RATHER THAN BOEING 727'S, WHICH WOULD HAV BEEN BETTER IN QUALITY AND CHEAPER, BECAUSE OF US RESTRICTIONS ON TECHNOLOGY EXPORTS --RESTRICTIONS WHICH INDICATE OUR PREJUDICE AGAINST CHINA.

9. WHEN PHILLIPS RESPONDED THAT BRITAIN, TOO, SUBSCRIBES TO THE COCOM RESTRICTIONS ON TECHNOLOGY EXPORTS, CHEN RIPOSTED THAT AT LEAST BRITAIN DID NOT DISCRIMINATE ON THE QUESTION OF TARIFFS. LI CHUAN VOICED HIS AGREEMENT, SAYING THAT TARIFFS WAS YET AN ADDITIONAL PROBLEM

10. CHENG SAID THAT US, THROUGH ITS INFLUENCE IN COCOM, ALSO ATTEMPTED TO RESTRICT OTHER NATIONS' SALES TO CHINA: EUROPEAN SALESMEN HAD EXPLAINED THIS TO HIM. PHILLIPS POINTED TO THE SALE OF SPEY ENGINES, WHICH HE SAID CLEARLY COULD NOT HAVE TAKEN PLACE WITHOUT US CONSENT. THESE ENGINES EVEN HAD A MILITARY APPLICATION. THIS SHOWED THE US GOODWILL. CHENG REPLIED THAT THESE ENGINES WERE NOT, IN FACT, SUITABLE FOR MILITARY USE UNTIL MODIFICATIONS HAD BEEN MADE. CHINA COULD, OF COURSE, MAKE THESE MODIFICATIONS BUT STILL IT WAS NOT CONFIDENTIAL

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FAIR TO SAY THE SPEY ENGINES WERE "MILITARY" ENGINES. (TANG INTERJECTED, IN CHINESE, TO CHENG THAT PHILLIPS' COMMENT BELIED HIS ASSERTION THAT THE US DID NOT CONTROL COCOM DELIBERATIONS, RESTRICTING EXPORTS TO CHINA).

11. PHILLIPS SAID HE HOPED THERE COULD BE PROGRESS ON THE FROZEN ASSETS QUESTION. TANG REPLIED THAT "THE BALL WAS IN THE US COURT". IT HAD BEEN ONE MONTH SINCE CHINA HAD SENT ITS REPLY TO THE US AND THERE HAD BEEN NO ANSWER. IN 1973 THE US AND CHINA HAD BEEN THIS FAR (HOLDING UP HER THUMB AND FOREFINGER TOGETHER) FROM AN AGREEMENT, BUT THE AMERICAN SIDE HAD BACKED OFF. PHILLIPS AND TANG, BOTH PROTESTING THEIR UNFAMILIARITY WITH TECHNICAL DETAILS INVOLVED, DISCUSSED CERTAIN ASPECTS OF THE "DESIGNATED NATIONALS" QUESTION.

12. AT THIS POINT IN AN EXCHANGE NOT HEARD

DISTINCTLY BY USLO OFFICER BUT REPEATED TO HIM
LATER BY PHILLIPS, TANG TOLD PHILLIPS THAT
"THE LEAK IN THE NEW YORK TIMES DID NOT HELP.
OF COURSE, WE ASSUME THIS LEAK WAS NOT
ACCIDENTAL". PHILLIPS ASSURED HER THAT THE
LEAK HAD BEEN ACCIDENTAL. HE HAD TALKED
WITH BILL GLEYSTEN ABOUT THE MATTER AND
GLEYSTEN HAD BEEN VERY UNHAPPY ABOUT THE
LEAK. (NOT KNOWING ABOUT THE RECENT "NEW YORK
TIMES" LEAK CONCERNING MILITARY SALES,
PHILLIPS ASSUMED TANG WAS REFERRING TO A
PREVIOUS STORY ON FROZEN ASSETS. IT SEEMS
LIKELY TO US THAT THIS IS THE CASE, BUT THE
POSSIBILITY OF A MISUNDERSTANDING CANNOT BE
EXCLUDED).

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13. THE DISCUSSION CONCLUDED AMIABLY WITH
LI CHUAN TAKING THE LEAD IN NOTING THE
MUTUAL INTEREST OF ALL OF THOSE AT THE TABLE IN
PROMOTING US-CHINA TRADE, AND THE GOOD WORK
DONE BY THE NATIONAL COUNCIL IN THIS FIELD.
DEAN

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